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VILLAGE OF FARWELL
CLARE COUNTY, MICHIGAN

FINANCIAL STATEMENTS
FEBRUARY 28, 2006

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GLADWIN AND WEST BRANCH

RSM McGladrey Network

An Independently Owned Member

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF FARWELL	County CLARE
Fiscal Year End 2-28-06	Opinion Date 5-12-06	Date Audit Report Submitted to State 8-21-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Letter to the Village Board	
Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH		Telephone Number 989-386-3481	
Street Address 601 BEECH STREET		City CLARE	State MI
Authorizing CPA Signature <i>Shannon Wilson</i>		Printed Name SHANNON WILSON	Zip 48617
		License Number 1101027042	

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INDEPENDENT AUDITORS' REPORT

May 12, 2006

Members of the Village Council
Village of Farwell,
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Farwell, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the index. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, the aggregate discretely presented component unit, and each major fund of the Village of Farwell as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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Members of the Village Council
Village of Farwell
May 12, 2006
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 2006 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Our discussion and analysis of the Village of Farwell's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2006.

Financial Highlights

The General Fund reported an increase in fund balance of \$141,104 resulting in a balance of \$731,461 at the end of the year. Ending fund balances for the Major and Local Street Funds were \$250,603 and \$46,887 respectively.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Village of Farwell financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Village, presenting both an aggregate view of the Village's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Major Streets Fund and Local Streets Fund. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the major Governmental Funds (Required Supplemental Information)

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Reporting the Village as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Village's finances is, "Is the Village better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Village's net assets as a way to measure the Village's financial position. The change in net assets provides the reader a tool to assist in determining whether the Village's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Village.

In the Statement of Net Assets and the Statement of Activities, the Village is divided into three kinds of activities:

- Governmental Activities – Most of the Village's basic services are reported here, including the major streets fund, local streets fund, and general administration. Sales taxes (stated shared revenues), property taxes and franchise fees finance most of these activities.
- Business Type Activities – The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's water and sewer systems are reported here.
- Component Unit – The Village includes a separate legal entity in its report – Local Development Finance Authority. Although legally separate, this component unit is important because the Village is financially accountable for them.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Reporting the Village's Most Significant Funds

Fund Financial Statements

The Village's fund financial statements provide detailed information about the most significant funds – not the Village as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Village's two types of funds, governmental and proprietary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Village's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Village's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds

These funds are reported in the fund financial statements and generally report services for which the Government charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Government organization such as the water and sewer utilities.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Village as a whole. Exhibit A provides a summary of the Village's net assets as of February 28, 2006 and 2005.

<u>Exhibit A</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Current and other assets	\$ 1,041,836	\$ 852,049	\$ 702,039	\$ 453,089	\$ 1,743,875	\$ 1,305,138
Capital assets - net of accumulated depreciation	377,134	444,841	2,764,511	1,148,466	3,141,645	1,593,307
Total Assets	1,418,970	1,296,890	3,466,550	1,601,555	4,885,520	2,898,445
Liabilities						
Current liabilities	12,885	14,970	177,042	145,417	189,927	160,387
Long-term liabilities	7,825	0	1,042,000	282,333	1,049,825	282,333
Total Liabilities	20,710	14,970	1,219,042	427,750	1,239,752	442,720
Net Assets						
Invested in property and equipment - net of related debt	377,134	444,841	1,689,475	868,466	2,066,609	1,313,307
Restricted	0	0	122,442	72,010	122,442	72,010
Unrestricted	1,021,126	837,079	435,591	233,329	1,456,717	1,070,408
Total Net Assets	\$ 1,398,260	\$ 1,281,920	\$ 2,247,508	\$ 1,173,805	\$ 3,645,768	\$ 2,455,725

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Exhibit A , on the previous page, focuses on net assets. The Village's total net assets were approximately \$3.6 million at February 28, 2006. Capital assets, net of related debt, totaling approximately \$2.1 million compares the original costs, less depreciation of the Village's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$122,000 are reported separately to show legal constraints from debt requirements and legislation that limit the Village's ability to use those net assets for day-to-day operations.

The \$1.5 million of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the Village as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended February 28, 2006. Exhibit B provides a summary of the Village's operations for 2005 and 2006.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Exhibit B</u>						
Revenue						
Program revenue:						
Charges for services	\$ 35,417	\$43,266	\$ 285,371	\$ 154,786	\$ 320,788	\$ 198,052
Grants and contributions	0	0	1,040,000	0	1,040,000	0
General revenue:						
Property taxes	191,456	196,247	0	0	191,456	196,247
State shared revenue	175,588	183,458	0	0	175,588	183,458
Interest income	14,328	12,227	20,218	16,299	34,546	28,526
Transfers in (out)	0	(9,040)	0	9,040	0	0
Other	66,318	212	0	5,736	66,318	5,948
Total revenue	<u>483,107</u>	<u>426,370</u>	<u>1,345,589</u>	<u>185,861</u>	<u>1,828,696</u>	<u>\$ 612,231</u>
Function/Program Expenses						
General government	83,004	80,029	0	0	83,004	80,029
Public safety	16,710	20,702	0	0	16,710	20,702
Public service	149,118	252,902	0	0	149,118	252,902
Recreation and culture	8,121	15,203	0	0	8,121	15,203
Community and economic development	0	7,326	0	0	0	7,326
Highways and streets	109,814	0	0	0	109,814	0
Interest on long-term debt	0	487	0	0	0	487
Water and sewer	0	0	271,886	228,203	271,886	228,203
Total expenses	<u>366,767</u>	<u>376,649</u>	<u>271,886</u>	<u>228,203</u>	<u>638,653</u>	<u>604,852</u>
Increase (Decrease)						
in Net Assets	<u>\$ 116,340</u>	<u>\$ 49,721</u>	<u>\$ 1,073,703</u>	<u>\$ (42,342)</u>	<u>\$ 1,190,043</u>	<u>\$ 7,379</u>

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

As reported in the statement of activities, the cost of all of our *governmental and business-type* activities this year was approximately \$639,000. Certain activities were partially funded by approximately \$321,000 from those who benefited from the programs, or by the other Villages and organizations that subsidized certain programs with operating grants and contributions of \$1.04 million. We paid for the remaining "public benefit" portion of our governmental and business-type activities with approximately \$191,000 in taxes, \$176,000 in State shared revenue, and with our other revenues, such as interest and miscellaneous revenues.

The Village experienced an increase in net assets of approximately \$1.2 million mainly due to the receipt of a grant for the waste water treatment plant.

The Village's Funds

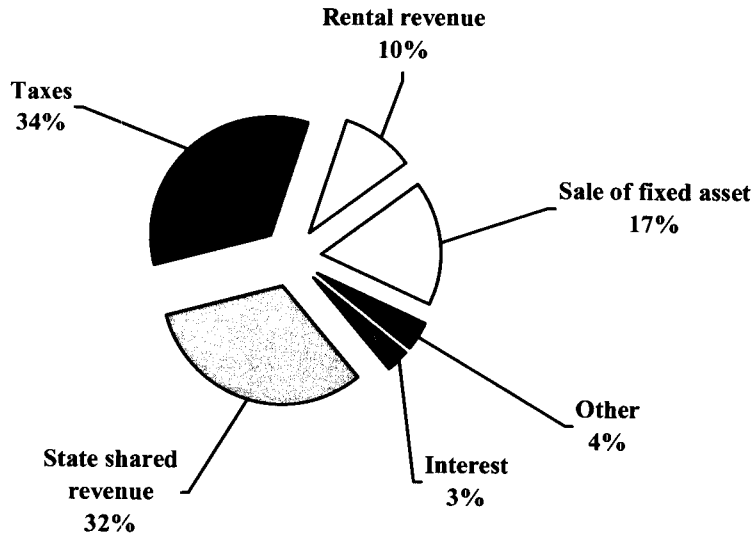
The Village uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Village is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Village's overall financial health.

The Village's Governmental funds reported a combined fund balance of \$1.03 million which is up from last year's total of approximately \$837,000. The schedule below details the fund balance and the total change in fund balances as of February 28, 2006 and 2005.

	<u>Fund Balance</u> <u>February 28, 2006</u>	<u>Fund Balance</u> <u>February 28, 2005</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 731,461	\$ 590,357	\$ 141,104
Major Streets	250,603	203,699	46,904
Local Streets	46,887	43,023	3,864
Total	<u>\$ 1,028,951</u>	<u>\$ 837,079</u>	<u>\$ 191,872</u>

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

The graph below details the major sources of the Village's total governmental fund revenue.



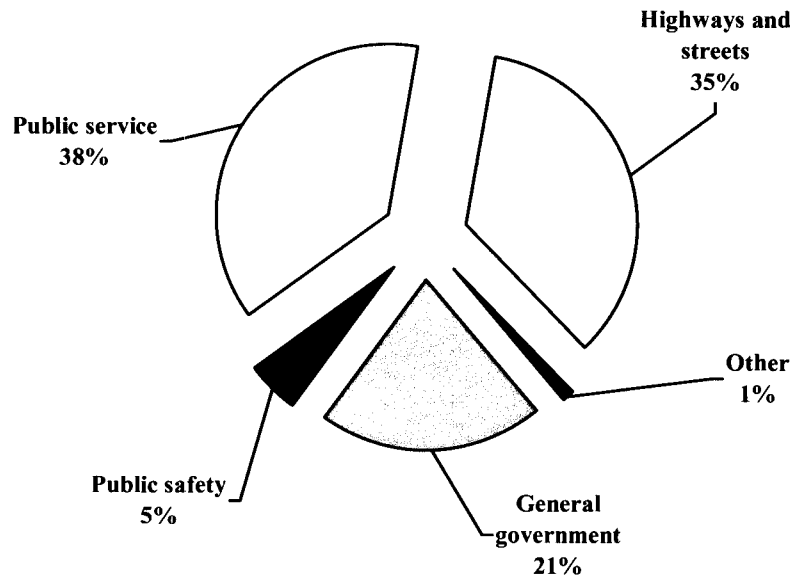
The chart below compares current year revenues with last year.

<i>Revenues by Function</i>	2006	2005
State shared revenue	\$ 175,588	\$ 183,458
Taxes	191,456	196,247
Rental revenue	54,753	43,006
Sale of fixed asset	93,418	0
Interest	14,328	12,227
Licenses and permits	22,210	472
Total	\$ 551,753	\$ 435,410

Revenues are up \$116,343 mainly due to the sale of the fixed asset. Revenue also increased for licenses and permits due to an increase in charges for these items. These increases were offset by decreases in state shared revenue and property taxes.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

The graph below details the governmental expenditure categories of the Village.



The chart below compares current year expenditures with last year.

	2006	2005
<i>Expenditures by Function</i>		
General government	\$ 76,401	\$ 71,685
Public safety	16,710	20,702
Public service	137,409	115,398
Highway and streets	123,738	103,933
Recreation and culture	5,623	12,705
Other	0	14,395
Debt service	0	20,494
Capital outlay	0	167,365
Total	<u>\$ 359,881</u>	<u>\$ 526,677</u>

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Expenditures are down \$167,000 from the prior year mainly due to fewer capital projects. The Village also paid off loan in the prior year. These decreases were offset by increases in costs for public services and road repair and maintenance projects during the current year.

Business-Type Activities -The Village's Proprietary Funds shows the activity of the Water and Sewer Funds. The Water Fund reported net assets of \$757,600 and a net increase in net assets of \$2,646. The increase in net assets is mainly due to the increase in interest income of \$3,201. The Sewer Fund reported net assets of \$1.5 million and a net increase of \$1.1 million. The increase in net assets is mainly due to the receipt of a grant for the waste water treatment plant.

General Fund Budgetary Highlights

Over the course of the year, the Village revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Village's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Capital Assets

At February 28, 2006, the Village had \$3.1 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net increase (including additions and disposals) of approximately \$1.5 million or 94%, from last year.

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 22,000	\$ 57,000	\$ 163,844	\$ 163,844	\$ 185,844	\$ 220,844
Construction in progress	0	0	1,775,471	130,883	1,775,471	130,883
Buildings and improvements	239,798	239,798	8,265	8,265	248,063	248,063
Infrastructure	157,014	157,014	0	0	157,014	157,014
Vehicles	212,902	212,902	0	0	212,902	212,902
Machinery and equipment	152,570	152,570	90,041	51,429	242,611	203,999
Water system	0	0	1,361,812	1,361,812	1,361,812	1,361,812
Sewer system	0	0	1,270,408	1,270,408	1,270,408	1,270,408
 Total capital assets	 784,284	 819,284	 4,669,841	 2,986,641	 5,454,125	 3,805,925
 Less accumulated depreciation	 407,150	 374,443	 1,905,330	 1,838,175	 2,312,480	 2,212,618
 Net capital assets	 <u>\$ 377,134</u>	 <u>\$ 444,841</u>	 <u>\$ 2,764,511</u>	 <u>\$ 1,148,466</u>	 <u>\$ 3,141,645</u>	 <u>\$ 1,593,307</u>

This year's additions of \$265,000 included a leaf vacuum truck, land and building next to the library, water and sewer systems.

We do not anticipate any major capital additions in the next fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

VILLAGE OF FARWELL
Management's Discussion and Analysis
For the Year Ended February 28, 2006

Debt

At the end of this year, the Village had \$1.1 million in long-term debt outstanding versus \$280,000 in the previous year. The Village's debt is comprised of general obligation bonds used by the sewer service fund.

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust Village expenditures in response to any revenue shortfall.

Contacting The Village's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, contact the Village Treasurer/Clerk Office at PO Box 374, Farwell, Michigan 48622.

VILLAGE OF FARWELL
Statement of Net Assets
February 28, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and equivalents	\$ 893,840	\$ 539,710	\$ 1,433,550	\$ 58,276
Receivables (net)	3,600	39,987	43,587	0
Interfund balances	100	(100)	0	0
Due from other governmental units	58,784	0	58,784	5,020
Due from component unit	85,512	0	85,512	0
Restricted assets -				
cash and equivalents	0	122,442	122,442	0
Capital assets - less accumulated depreciation of \$2,409,688	377,134	2,764,511	3,141,645	934,989
<u>Total assets</u>	<u>1,418,970</u>	<u>3,466,550</u>	<u>4,885,520</u>	<u>998,285</u>
<u>Current Liabilities</u>				
Accounts payable	2,625	83,106	85,731	0
Accrued expenses	6,660	0	6,660	0
Deferred revenue	3,600	0	3,600	0
Retainage payable	0	60,900	60,900	0
Accrued interest payable	0	5,036	5,036	0
Due to primary government	0	0	0	85,512
Bonds payable	0	28,000	28,000	27,286
<u>Total current liabilities</u>	<u>12,885</u>	<u>177,042</u>	<u>189,927</u>	<u>112,798</u>
<u>Long-term liabilities</u>				
Compensated absences	7,825	0	7,825	0
Bonds payable	0	1,042,000	1,042,000	345,616
<u>Total liabilities</u>	<u>20,710</u>	<u>1,219,042</u>	<u>1,239,752</u>	<u>458,414</u>
<u>Net Assets</u>				
Invested in capital assets net of related debt	377,134	1,689,475	2,066,609	562,087
Restricted for other purposes	0	122,442	122,442	0
Unrestricted	1,021,126	435,591	1,456,717	(22,216)
<u>Total net assets</u>	<u>\$ 1,398,260</u>	<u>\$ 2,247,508</u>	<u>\$ 3,645,768</u>	<u>\$ 539,871</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Statement of Activities
For the Year Ended February 28, 2006

Functions/ <u>Programs</u>	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Capital Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
Primary government:							
General government	\$ 83,004	\$ 21,107	\$ 0	\$ (61,897)	\$ 0	\$ (61,897)	\$ 0
Public safety	16,710	0	0	(16,710)	0	(16,710)	0
Public service	149,118	0	0	(149,118)	0	(149,118)	0
Highways and streets	109,814	14,310	0	(95,504)	0	(95,504)	0
Recreation and cultural	8,121	0	0	(8,121)	0	(8,121)	0
Total governmental activities	366,767	35,417	0	(331,350)	0	(331,350)	0
Business-type activities:							
Sewer	152,563	173,781	1,040,000	0	1,061,218	1,061,218	0
Water	119,323	111,590	0	0	(7,733)	(7,733)	0
Total business-type activities	271,886	285,371	1,040,000	0	1,053,485	1,053,485	0
Total primary government	\$ 638,653	\$ 320,788	\$ 1,040,000	(331,350)	1,053,485	722,135	0
Component unit:							
Local Development Finance Authority	\$ 50,298	\$ 0	\$ 0	0	0	0	(50,298)
General Revenues:							
State shared revenue				175,588	0	175,588	8,414
Property taxes				191,456	0	191,456	0
Interest income				14,328	20,218	34,546	0
Gain on sale of assets				58,418	0	58,418	36,896
Miscellaneous				7,900	0	7,900	0
Total general revenues				447,690	20,218	467,908	45,310
Change in net assets				116,340	1,073,703	1,190,043	(4,988)
Net assets - beginning of year, as previously stated				1,281,920	1,173,805	2,455,725	(52,830)
Prior period adjustment				0	0	0	597,689
Net assets - beginning of year, restated				1,281,920	1,173,805	2,455,725	544,859
Net assets - end of year				\$ 1,398,260	\$ 2,247,508	\$ 3,645,768	\$ 539,871

See accompanying notes to financial statements

VILLAGE OF FARWELL
Governmental Funds
Balance Sheet
February 28, 2006

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Streets Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash and equivalents	\$ 616,619	\$ 239,092	\$ 38,129	\$ 893,840
Receivables - net	0	3,600	0	3,600
Due from other governmental units	38,500	11,526	8,758	58,784
Due from other funds	100	0	0	100
Due from component unit	85,512	0	0	85,512
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 740,731</u>	<u>\$ 254,218</u>	<u>\$ 46,887</u>	<u>\$ 1,041,836</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 2,610	\$ 15	\$ 0	\$ 2,625
Accrued expenses	6,660	0	0	6,660
Deferred revenue	0	3,600	0	3,600
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>9,270</u>	<u>3,615</u>	<u>0</u>	<u>12,885</u>
<u>Fund Balance</u>				
Unreserved	<u>731,461</u>	<u>250,603</u>	<u>46,887</u>	<u>1,028,951</u>
Total fund balance	<u>731,461</u>	<u>250,603</u>	<u>46,887</u>	<u>1,028,951</u>
Total liabilities and fund balance	<u>\$ 740,731</u>	<u>\$ 254,218</u>	<u>\$ 46,887</u>	<u>\$ 1,041,836</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
February 28, 2006

Total fund balance - governmental funds	\$ 1,028,951
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of the capital assets	784,285
Accumulated depreciation	(407,151)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	<u>(7,825)</u>
Total net assets - governmental activities	<u><u>\$ 1,398,260</u></u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended February 28, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Total
<u>Revenues</u>				
State shared revenue	\$ 83,308	\$ 67,018	\$ 25,262	\$ 175,588
Taxes and penalties	158,299	16,586	16,571	191,456
Special assessments	0	14,310	0	14,310
Equipment rental	54,753	0	0	54,753
Miscellaneous	7,900	0	0	7,900
Interest income	9,569	2,857	1,902	14,328
Sale of fixed asset	93,418	0	0	93,418
Total revenues	407,247	100,771	43,735	551,753
<u>Expenditures</u>				
Current:				
General government	76,401	0	0	76,401
Public safety	16,710	0	0	16,710
Public service	137,409	0	0	137,409
Highways and streets	0	67,767	55,971	123,738
Recreation and cultural	5,623	0	0	5,623
Total expenditures	236,143	67,767	55,971	359,881
Excess (deficiency) of revenues over expenditures	171,104	33,004	(12,236)	191,872
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	20,000	16,100	36,100
Operating transfers (out)	(30,000)	(6,100)	0	(36,100)
Total other financing sources (uses)	(30,000)	13,900	16,100	0
Excess (deficiency) of revenues and other sources over expenditures and other financing uses	141,104	46,904	3,864	191,872
Fund balance - beginning of year	590,357	203,699	43,023	837,079
Fund balance - end of year	\$ 731,461	\$ 250,603	\$ 46,887	\$ 1,028,951

See accompanying notes to financial statements

VILLAGE OF FARWELL
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2006

Net change in fund balance - total governmental funds	\$ 191,872
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation

Depreciation expense	(32,707)
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In the statement of activities, only the *gain* on the sale of land is reported
whereas in the governmental funds, the proceeds from the sale increase
financial resources. Thus, the change in net assets differs from the
change in fund balance by the cost of the land sold.

	(35,000)
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Increases in compensated absences are reported as expenditures
when financial resources are used in the governmental funds in
accordance with GASB Interpretation No. 6

	<u>(7,825)</u>
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Change in net assets of governmental activities	<u>\$ 116,340</u>
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See accompanying notes to financial statements

VILLAGE OF FARWELL
Proprietary Fund
Statement of Net Assets
February 28, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
cash and equivalents	\$ 170,311	\$ 369,399	\$ 539,710
Accounts receivable:			
Taxes	284	511	795
Customers	26,082	13,110	39,192
	<u>196,677</u>	<u>383,020</u>	<u>579,697</u>
Total current assets			
Noncurrent assets:			
Restricted assets -			
cash and equivalents	50,432	72,010	122,442
Capital assets less accumulated depreciation of \$1,905,330	2,199,774	564,737	2,764,511
	<u>\$ 2,446,883</u>	<u>\$ 1,019,767</u>	<u>\$ 3,466,650</u>
Total Assets			
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$ 83,106	\$ 0	\$ 83,106
Retainage payable	60,900	0	60,900
Accrued interest	2,869	2,167	5,036
Due to other funds	100	0	100
Current portion noncurrent liabilities	8,000	20,000	28,000
Total current liabilities	154,975	22,167	177,142
Bonds payable	802,000	240,000	1,042,000
	<u>956,975</u>	<u>262,167</u>	<u>1,219,142</u>
Total Liabilities			
<u>Net Assets</u>			
Invested in capital assets -			
net of related debt	1,386,905	302,570	1,689,475
Restricted	50,432	72,010	122,442
Unrestricted	52,571	383,020	435,591
Total Net Assets	<u>\$ 1,489,908</u>	<u>\$ 757,600</u>	<u>\$ 2,247,508</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for services	\$ 168,422	\$ 105,375	\$ 273,797
Rental income	0	3,500	3,500
Miscellaneous	5,359	2,715	8,074
Total operating revenues	<u>173,781</u>	<u>111,590</u>	<u>285,371</u>
<u>Operating Expenses</u>			
Personnel services	21,379	25,114	46,493
Supplies	1,577	1,500	3,077
Contractual services	12,882	0	12,882
Professional services	11,792	5,721	17,513
Utilities	21,015	15,299	36,314
Equipment rental	10,627	10,479	21,106
Repairs and maintenance	7,246	6,148	13,394
Other expenses	7,160	5,468	12,628
Depreciation	35,585	35,760	71,345
Total operating expenses	<u>129,263</u>	<u>105,489</u>	<u>234,752</u>
Operating income	<u>44,518</u>	<u>6,101</u>	<u>50,619</u>
<u>Nonoperating Revenues (Expenses)</u>			
Capital contributions	1,040,000	0	1,040,000
Interest income	9,839	10,379	20,218
Interest expense	(23,300)	(13,834)	(37,134)
Total nonoperating revenues (expenses)	<u>1,026,539</u>	<u>(3,455)</u>	<u>1,023,084</u>
Change in net assets	1,071,057	2,646	1,073,703
Net assets - beginning of year	<u>418,851</u>	<u>754,954</u>	<u>1,173,805</u>
Net assets - end of year	<u>\$1,489,908</u>	<u>\$ 757,600</u>	<u>\$ 2,247,508</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL
Proprietary Fund
Statement of Cash Flows
For the Year Ended February 28, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Cash flows from operating activities</u>			
Cash received from customers	\$ 161,545	\$ 109,950	\$ 271,495
Cash payments to suppliers for goods and services	(71,441)	(46,784)	(118,225)
Cash payments to employees for services	(21,379)	(25,114)	(46,493)
Net cash provided by operating activities	<u>68,725</u>	<u>38,052</u>	<u>106,777</u>
<u>Cash flows from capital and related financing activities</u>			
Acquisition and construction of capital assets	(1,687,390)	0	(1,687,390)
Proceeds from long term debt	818,000	0	818,000
Proceeds from grant	1,040,000	0	1,040,000
Principal paid on long-term debt	(8,000)	(20,000)	(28,000)
Interest paid on long-term debt	(23,300)	(13,834)	(37,134)
Net cash provided (used) by capital and related financing activities	<u>139,310</u>	<u>(33,834)</u>	<u>105,476</u>
<u>Cash flows from investing activities</u>			
Interest income	<u>12,708</u>	<u>10,213</u>	<u>22,921</u>
Net increase in cash and investments	220,743	14,431	235,174
Cash and investments - beginning of year	<u>0</u>	<u>426,978</u>	<u>426,978</u>
Cash and investments - end of year	<u>\$ 220,743</u>	<u>\$ 441,409</u>	<u>\$ 662,152</u>
<u>Reconciliation of Cash Flows from Operations</u>			
Operating income	\$ 44,518	\$ 6,101	\$ 50,619
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	35,585	35,760	71,345
Changes in operating assets and liabilities:			
Accounts receivable	(12,236)	(1,640)	(13,876)
Accounts payable	82,700	0	82,700
Retainage payable	60,900	0	60,900
Accrued other liabilities	(2,453)	(2,169)	(4,622)
Due to other funds	(140,289)	0	(140,289)
Net cash provided by operating activities	<u>\$ 68,725</u>	<u>\$ 38,052</u>	<u>\$ 106,777</u>

See accompanying notes to financial statements.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Farwell conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Farwell:

Reporting entity

Village of Farwell is governed by an elected seven-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented component Units – The component unit's columns in the entity wide financial statements include the financial data of the Local Development Finance Authority (LDFA). This unit is reported in a separate column to emphasize that they are legally separate from the Village. The LDFA serves all the citizens of the government and are governed by a board comprised of the Village's elected Council.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

The Village reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Major and Local Street Funds – The Major and Local Street Funds account for the resources of the state gas and weight tax revenue that are restricted for use of major and local streets.

The Village reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the water distribution system.

Sewer Fund – The Sewer Fund accounts for the activities of the sewage collection system.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on property values assessed as of the same date. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash - \$122,442 of the Enterprise Fund's cash and equivalents is restricted for required bond reserves and construction projects (Note 9).

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, vehicles, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years

Compensated absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. All liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirement.

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Village of Farwell follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Village Clerk/Treasury submits to the Village's Council a proposed budget prior to March 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the Village's Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Major Streets Fund and Local Streets Fund are presented as Required Supplemental Information.

Excess of Expenditures Over Appropriations in Budgeted Funds – The LDFA component unit of the Village is currently operating under a deficit fund balance. The deficit has been financed by advances from the General Fund. It is the intention of the Village to repay the General Fund as lots are sold in the Industrial Park.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Village's deposits are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Cash and Equivalents</u>	<u>Restricted Cash Equivalents</u>
Governmental activities	\$ 893,840	\$ 0
Business-type activities	<u>539,710</u>	<u>122,442</u>
Total primary government	1,433,550	122,442
Component unit	<u>58,276</u>	<u>0</u>
Total	<u><u>\$ 1,491,826</u></u>	<u><u>\$ 122,442</u></u>

The breakdown of deposits is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,614,243
Petty cash and cash on hand	<u>25</u>
Total	<u><u>\$ 1,614,268</u></u>

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2006, \$1,416,587 of the Village's bank balance of \$1,616,587 was exposed to custodial credit risk because it was uninsured and uncollateralized. Since the component unit participates in the government's common cash, the federal depository insurance is not specifically allocated to their balance.

The Village's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

NOTE 4 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 57,000	\$ 0	\$ 35,000	\$ 22,000
Capital assets being depreciated:				
Land improvements	157,014	0	0	157,014
Buildings, additions and improvements	239,798	0	0	239,798
Machinery and equipment	152,570	0	0	152,570
Vehicles	212,902	0	0	212,902
Subtotal	<u>762,284</u>	<u>0</u>	<u>0</u>	<u>762,284</u>
Less accumulated depreciation for:				
Land improvements	1,309	3,926	0	5,235
Buildings, additions and improvements	118,097	6,975	0	125,072
Machinery and equipment	91,777	8,506	0	100,283
Vehicles	163,260	13,300	0	176,560
Subtotal	<u>374,443</u>	<u>32,707</u>	<u>0</u>	<u>407,150</u>
Net capital assets being depreciated	<u>387,841</u>	<u>(32,707)</u>	<u>0</u>	<u>355,134</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 444,841</u>	<u>\$ (32,707)</u>	<u>\$ 35,000</u>	<u>\$ 377,134</u>

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 163,844	\$ 0	\$ 0	\$ 163,844
Construction in progress	130,883	1,644,588	0	1,775,471
Total capital assets not being depreciated:	294,727	1,644,588	0	1,939,315
Capital assets being depreciated:				
Buildings, additions and improvements	8,265	0	0	8,265
Machinery and equipment	50,829	42,802	3,590	90,041
Water system	1,361,812	0	0	1,361,812
Sewer System	1,270,408	0	0	1,270,408
Total capital assets being depreciated	2,691,314	42,802	3,590	2,730,526
Less accumulated depreciation for:				
Buildings, additions and improvements	4,259	169	0	4,428
Machinery and equipment	40,564	3,825	3,590	40,799
Water system	779,321	35,591	0	814,912
Sewer System	1,013,431	31,760	0	1,045,191
	1,837,575	71,345	3,590	1,905,330
Net capital assets being depreciated	853,739	(28,543)	0	825,196
Business-type activities, total capital assets, net of depreciation	\$ 1,148,466	\$ 1,616,045	\$ 0	\$ 2,764,511
<u>Component unit activities</u>				
Capital assets not being depreciated:				
Land	\$ 88,843	\$ 0	\$ 7,104	\$ 81,739
Capital assets being depreciated:				
Land improvements	950,458	0	0	950,458
Less accumulated depreciation for:				
Land improvements	68,710	28,498	0	97,208
Net capital assets being depreciated	881,748	(28,498)	0	853,250
Component unit activity, total capital assets, net of depreciation	\$ 970,591	\$ (28,498)	\$ 7,104	\$ 934,989

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 1,275
Public service	11,709
Highways and streets	17,225
Recreation and cultural	<u>2,498</u>
Total governmental activities depreciation expense	<u>\$ 32,707</u>
Business-type activities:	
Sewer	\$ 35,585
Water	<u>35,760</u>
Total business-type activities depreciation expense	<u>\$ 71,345</u>
Component unit activities:	
LDFA	<u>\$ 28,498</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of transfers made during the year ended February 28, 2006 are as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 85,612	\$ 0	\$ 0	\$ 30,000
Major Street Fund	0	0	20,000	6,100
Local Street Fund	0	0	16,100	0
Building Authority Fund	0	0	0	0
Sewer Fund	0	100	0	0
Local Finance				
Development Authority	0	85,512	0	0
	<u>\$ 85,612</u>	<u>\$ 85,612</u>	<u>\$ 36,100</u>	<u>\$ 36,100</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to supplement projects within the street funds.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 6- LONG-TERM DEBT

A summary of the Village's long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Primary Government</u>			
1979 Water Bonds, due in annual installments of \$20,000 through 2019, with an interest rate of 5.00%	\$ 280,000	\$ (20,000)	\$ 260,000
2005 Wastewater Treatment Plant Bonds, due in annual installments of \$8,000 to \$19,000, with an interest rate of 4.25%	<u>0</u>	<u>810,000</u>	<u>810,000</u>
	280,000	790,000	1,070,000
<u>Component Unit</u>			
State of Michigan Community Development Block Grant Program Revenue bonds, dated April 1, 2000, due in annual installments through May 2018, with no stated interest.	<u>372,902</u>	<u>0</u>	<u>372,902</u>
	<u>\$ 652,902</u>	<u>\$ 790,000</u>	<u>\$ 1,442,902</u>

Long-term obligation activity can be summarized as follows:

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance February 28, 2006</u>	<u>Amount Due Within One Year</u>
Bonds	<u>\$ 652,902</u>	<u>\$ 818,000</u>	<u>\$ 28,000</u>	<u>\$ 1,442,902</u>	<u>\$ 55,286</u>

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended February 28	Business-Type Activities		Component Unit Activities	
	Principal	Interest	Principal	Interest
2007	\$ 28,000	\$ 47,425	\$ 27,286	\$ 0
2008	29,000	46,085	36,381	0
2009	29,000	44,703	36,381	0
2010	29,000	43,320	36,381	0
2011	30,000	41,938	36,381	0
2012-2016	156,000	188,015	181,905	0
2017-2021	129,000	151,010	18,187	0
2022-2026	86,000	129,030	0	0
2027-2031	105,000	109,228	0	0
2032-2036	130,000	84,788	0	0
2037-2041	162,000	54,572	0	0
2042-2045	157,000	17,044	0	0
Total	<u>\$ 1,070,000</u>	<u>\$ 957,158</u>	<u>\$ 372,902</u>	<u>\$ 0</u>

NOTE 7 – POST-EMPLOYMENT BENEFITS

The Village has a defined contribution pension plan that covers certain employees of the Village. The full-time employee is eligible to participate after 90 days of service. This Village contributed \$3,750 and \$3,500 per employee for the years ended February 28, 2006 and 2005 respectively. The total pension expense amounted to \$15,000 and \$14,046 for the years ended February 28, 2006 and 2005 respectively.

NOTE 8 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts and errors and omissions. The Village has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

VILLAGE OF FARWELL
Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE 9- NET ASSETS - RESTRICTED

The Water fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of one half of the next interest payment due and one half of the next principal payment due on the 1979 bonds. This reserve has accumulated in the amount of \$13,500.

The Water Fund bond ordinances require minimum reserves to be set aside to the extent the fund reaches \$31,500 to be used for bond and interest redemption. This reserve has accumulated in the amount of \$31,500

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of the next quarter's current expenses or administration and operation of the water system. This reserve has accumulated in the amount of \$19,510.

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve to the extent the fund reaches \$7,500 to be used solely for the purpose of making major repairs and replacements to the water system. This reserve has accumulated in the amount of \$7,500.

The Sewer Fund bond ordinances require minimum reserves to be set aside to the extent the fund reaches \$44,000 to be used for bond and interest redemption. This reserve has accumulated in the amount of \$44,000.

The Sewer Fund bond ordinances require a portion of the user fee to be set aside in a reserve to the extent the fund reaches \$10,500 to be used solely for the purpose of making major repairs and replacements to the sewer system. This reserve has accumulated in the amount of \$6,432.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

The net assets of the Village of Farwell - Local Development Finance Authority at March 1, 2005, have been increased by \$597,689. The adjustment was due to the Authority capitalizing land as required under GASB 34.

VILLAGE OF FARWELL
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended February 28, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 85,000	\$ 83,883	\$ 83,308	\$ (575)
Taxes and penalties	156,175	160,341	158,299	(2,042)
Equipment rental	43,000	54,753	54,753	0
Miscellaneous	950	501	7,900	7,399
Interest income	3,000	4,944	9,569	4,625
Sale of fixed asset	0	93,418	93,418	0
Total revenues	288,125	397,840	407,247	9,407
<u>Expenditures</u>				
General government	94,536	99,665	76,401	23,264
Public safety	16,217	16,823	16,710	113
Public service	172,715	158,316	137,409	20,907
Recreation and cultural	10,400	8,081	5,623	2,458
Total expenditures	293,868	282,885	236,143	46,742
Excess (deficiency) of revenues over expenditures	(5,743)	114,955	171,104	56,149
<u>Other Financing (Uses)</u>				
Operating transfers out	(30,000)	(35,000)	(30,000)	5,000
Excess (deficiency) of revenues over expenditures and other financing uses	(35,743)	79,955	141,104	61,149
Fund balance - beginning of year	590,357	590,357	590,357	0
Fund balance - end of year	<u>\$ 554,614</u>	<u>\$ 670,312</u>	<u>\$ 731,461</u>	<u>\$ 61,149</u>

VILLAGE OF FARWELL
Required Supplemental Information
Budgetary Comparison Schedule - Major Streets Fund
For the Year Ended February 28, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 68,400	\$ 70,740	\$ 67,018	\$ (3,722)
Taxes and penalties	16,500	16,850	16,586	(264)
Special assessments	0	14,310	14,310	0
Interest income	1,500	2,450	2,857	407
Total revenues	86,400	104,350	100,771	(3,579)
<u>Expenditures</u>				
Highways and streets	192,330	69,195	67,767	1,428
Excess (deficiency) of revenues over expenditures	(105,930)	35,155	33,004	(2,151)
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	10,000	10,000	20,000	10,000
Operating transfers (out)	(16,100)	(16,100)	(6,100)	10,000
Total other financing sources (uses)	(6,100)	(6,100)	13,900	20,000
Excess (deficiency) of revenues over expenditures and other financing uses	(112,030)	29,055	46,904	17,849
Fund balance - beginning of year	203,699	203,699	203,699	0
Fund balance - end of year	<u>\$ 91,669</u>	<u>\$ 232,754</u>	<u>\$ 250,603</u>	<u>\$ 17,849</u>

VILLAGE OF FARWELL
Required Supplemental Information
Budgetary Comparison Schedule - Local Streets Fund
For the Year Ended February 28, 2006

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 21,000	\$ 22,101	\$ 25,262	\$ 3,161
Taxes and penalties	16,700	16,833	16,571	(262)
Interest income	1,000	1,631	1,902	271
Total revenues	38,700	40,565	43,735	3,170
<u>Expenditures</u>				
Highways and streets	81,300	90,975	55,971	35,004
Excess (deficiency) of revenues over expenditures	(42,600)	(50,410)	(12,236)	38,174
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	26,100	21,100	16,100	(5,000)
Excess (deficiency) of revenues over expenditures and other financing uses	(16,500)	(29,310)	3,864	33,174
Fund balance - beginning of year	43,023	43,023	43,023	0
Fund balance - end of year	<u>\$ 26,523</u>	<u>\$ 13,713</u>	<u>\$ 46,887</u>	<u>\$ 33,174</u>



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May 12, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Village Council
Village of Farwell
Clare County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of Village of Farwell as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated May 12, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Farwell's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Members of the Village Council
Village of Farwell
May 12, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Farwell's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Village Council, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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May 12, 2006

Members of the Village Council
Village of Farwell
Clare County, Michigan

This letter is intended to inform the Village Council of Village of Farwell (Village) about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Village Council.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

The Auditor's Responsibility Under Generally Accepted Auditing Standards and OMB Circular A-133

Our audit of the financial statements of Village of Farwell for the year ended February 28, 2006 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

In planning and performing our audit, we considered Village of Farwell' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Members of the Village Council
Village of Farwell
May 12, 2006
Page 2

As part of obtaining reasonable assurance about whether Village of Farwell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Village of Farwell's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Village of Farwell's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Village of Farwell's compliance with those requirements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit Adjustments

There were audit adjustments made to the original trial balance presented to us to begin our audit. In our judgment, the adjustments we proposed, either individually or in the aggregate, are not considered to have a significant effect on the Village's financial reporting process.



WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
May 12, 2006
Page 3

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Village. The Village did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing related matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We incurred no significant difficulties in dealing with management in the performance of our audit.



WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
May 12, 2006
Page 4

Other Comments

Adoption of the Local Development Finance Authority Budget

It was observed during our audit that the Village did not adopt a budget for the Local Development Finance Authority (LDFA). The State of Michigan, Department of Treasury, Uniform Budget Manual, requires that the LDFA adopt a revenue and expense budget by source, at a minimum. In order for the LDFA to be in compliance with the State of Michigan, the LDFA will need to adopt a budget for the current fiscal year and for each fiscal year thereafter. In addition, the adoption of a budget will demonstrate that the LDFA is actively monitoring revenues and expenditures in a timely manner.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Village of Farwell.

This report is intended solely for the information of the Village Council, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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VILLAGE OF FARWELL
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SINGLE AUDIT ACT REPORTS
FEBRUARY 28, 2006

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May 12, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Village Council
Village of Farwell
Clare County, Michigan

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Internal Control Over Financial Reporting

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May 12, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Farwell's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Village Council, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh



WEINLANDER FITZHUGH

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May 12, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Village Council
Village of Farwell
Clare County, Michigan

Compliance

We have audited the compliance of Village of Farwell with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2006. Village of Farwell's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Village of Farwell's management. Our responsibility is to express an opinion on Village of Farwell's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Farwell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Village of Farwell's compliance with those requirements.

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WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
May 12, 2006

In our opinion, Village of Farwell complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2006.

Internal Control Over Financial Reporting

The management of Village of Farwell is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Village of Farwell's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.



WEINLANDER FITZHUGH

Members of the Village Council
Village of Farwell
May 12, 2006

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Farwell as of and for the year ended February 28, 2006, and have issued our report thereon dated May 12, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Village of Farwell's basic financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Village Council, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh

VILLAGE OF FARWELL
Schedule of Findings and Questioned Costs
For the Year Ended February 28, 2006

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ___yes Xno

Reportable condition(s) identified not considered to be material weaknesses?

___yes Xnone reported

Noncompliance material to financial statements noted? ___yes Xno

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? ___yes Xno

Reportable condition(s) identified not considered to be material weaknesses?

___yes Xnone reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? ___yes Xno

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ___yes Xno

SECTION II - Financial Statement Findings

There are no matters reported.

SECTION III - Federal Award Findings and Questioned Costs

There are no matters reported.

VILLAGE OF FARWELL
Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2006

	<u>Federal CFDA Number</u>	<u>Approved Award, Grant Entitlement Amount</u>	<u>Current Year Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Rural Development:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 2,395,000	\$ 1,858,000

See accompanying notes to financial statements.

VILLAGE OF FARWELL
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2006

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Village of Farwell and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

**NOTE 2 – RECONCILIATION OF SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS TO THE BASIC FINANCIAL STATEMENTS**

Water Fund:

Capital contributions	\$ 1,040,000
Bond proceeds	<u>818,000</u>

Total expenditures per schedule of expenditures of federal awards	<u><u>\$ 1,858,000</u></u>
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